

EXPANSION AND CLARIFICATION OF ENTITIES AGAINST  
WHICH SANCTIONS MAY BE IMPOSED PURSUANT TO THE  
IRAN SANCTIONS ACT OF 1996

\_\_\_\_\_

MAY 22, 2007.—Ordered to be printed

\_\_\_\_\_

Mr. LANTOS, from the Committee on Foreign Affairs,  
submitted the following

R E P O R T

[To accompany H.R. 957]

[Including cost estimate of the Congressional Budget Office]

The Committee on Foreign Affairs, to whom was referred the bill (H.R. 957) to amend the Iran Sanctions Act of 1996 to expand and clarify the entities against which sanctions may be imposed, having considered the same, reports favorably thereon with an amendment and recommends that the bill as amended do pass.

TABLE OF CONTENTS

	Page
The Amendment .....	2
Purpose and Summary .....	2
Hearings and Briefings .....	4
Committee Consideration .....	4
Votes of the Committee .....	4
Committee Oversight Findings .....	4
New Budget Authority and Tax Expenditures .....	4
Congressional Budget Office Cost Estimate .....	4
Performance Goals and Objectives .....	5
Constitutional Authority Statement .....	5
New Advisory Committees .....	5
Congressional Accountability Act .....	5
Section-by-Section Analysis .....	5
Changes in Existing Law Made by the Bill, as Reported .....	6

THE AMENDMENT

The amendment is as follows:  
Strike all after the enacting clause and insert the following:

**SECTION 1. EXPANSION AND CLARIFICATION OF ENTITIES AGAINST WHICH SANCTIONS MAY BE IMPOSED PURSUANT TO THE IRAN SANCTIONS ACT OF 1996.**

Section 14 of the Iran Sanctions Act of 1996 (50 U.S.C. 1701 note) is amended—

(1) in paragraph (13)(B)—

(A) by inserting after “trust,” the following: “financial institution, insurer, underwriter, guarantor, any other business organization, including any foreign subsidiaries of the foregoing;” and

(B) by inserting before the semicolon at the end the following: “, such as an export credit agency”; and

(2) in paragraph (14), by inserting after “petroleum” the second place it appears the following: “, petroleum by-products, liquified natural gas.”

**SEC. 2. LIABILITY OF PARENT COMPANIES FOR VIOLATIONS OF SANCTIONS BY FOREIGN ENTITIES.**

(a) **IN GENERAL.**—In any case in which an entity engages in an act outside the United States which, if committed in the United States or by a United States person, would violate Executive Order No. 12959 of May 6, 1995, Executive Order No. 13059 of August 19, 1997, or any other prohibition on transactions with respect to Iran that is imposed under the International Emergency Economic Powers Act (50 U.S.C. 1701 et seq.) and if that entity was created or availed of for the purpose of engaging in such an act, the parent company of that entity shall be subject to the penalties for such violation to the same extent as if the parent company had engaged in that act.

(b) **DEFINITIONS.**—In this section—

(1) an entity is a “parent company” of another entity if it owns, directly or indirectly, more than 50 percent of the equity interest in that other entity and is a United States person; and

(2) the term “entity” means a partnership, association, trust, joint venture, corporation, or other organization.

**PURPOSE AND SUMMARY**

H.R. 957, to amend the Iran Sanctions Act of 1996 to expand and clarify the entities against which sanctions may be imposed, strengthens two earlier laws regarding Iran sanctions: the Iran and Libya Sanctions Act of 1996, and the Iran Freedom Support Act. On February 15, 2007, H.R. 957 was considered by the Committee on Foreign Affairs, and reported favorably to the House, as amended.

Iran poses a significant threat to the United States and our allies in the region. It is a vital U.S. national security priority to undertake steps to prevent Iran from acquiring weapons of mass destruction, in particular nuclear weapons, and to end its support for international terrorism.

Iran’s economy, and its ability to influence events, is heavily dependent on the revenue derived from energy exports. As such, recent U.S. efforts to prevent Iran from acquiring weapons of mass destruction have focused on deterring and prohibiting investment in Iran’s petroleum sector.

Although U.S. law prohibits American firms from investing in Iran, foreign entities which fall outside of United States jurisdiction continue to invest there. Such activity has enhanced the Iranian economy, allowed Iran access to sophisticated technology and know-how, as well as foreign currency, and thereby contributed significantly to Iran’s ability to fund terror groups, and to finance the regime’s weapons of mass destruction programs, including its nuclear program.

To address this problem, Congress passed, and President Bill Clinton signed into law, Public Law 104–172, the “Iran and Libya Sanctions Act of 1996” (ILSA). The purpose of this law was to discourage foreign entities from investing in Iran’s petroleum sector by imposing certain sanctions on them. However, since its enact-

ment, not a single entity has been sanctioned pursuant to P.L. 104–172. Presidential authority has been used to waive sanctions against foreign entities investing in Iran’s petroleum sector, and a number of investigations of possible investment in Iran remain active.

To further strengthen sanctions targeting these investments, on September 30, 2006, Congress passed, and President George W. Bush signed into law, Public Law 109–293, the “Iran Freedom Support Act” (IFSA).

Among other provisions, the IFSA strengthened sanctions under the Iran Sanctions Act (“ISA”—as the former “Iran and Libya Sanctions Act of 2006” is now known), including by raising certain waiver thresholds to “vital to the national security interests of the United States,” by enlarging the scope of those who might be subject to sanctions, and by enhancing tools for using financial means to address Iran’s activities of concern.

Since enactment of Public Law 109–293, there have been multiple reports of memoranda of understanding regarding investment deals in Iran’s energy sector that would be in violation of the ISA. Some of the firms named include Royal Dutch Shell Oil Company, China’s National Offshore Oil Corporation (CNOOC), Australian LNG Co., and Malaysia’s SKS. In many of these proposed investment deals, foreign governments and export credit agencies helped subsidize these investments.

In February 2007, Gregory L. Schulte, the chief U.S. representative to the International Atomic Energy Agency, called on European governments to cease giving credits to “subsidize exports to Iran,” and to take “more measures to discourage investment and financial transactions” with Iran.

The enacted version of IFSA did not include language that would make export credit agencies, insurers, and other financial institutions subject to sanctions for their facilitation of investments in Iran’s oil industry. To address these gaps, the House Foreign Affairs Committee passed H.R. 957. This bill also expands the activities covered under the law to include production of petrochemicals and liquefied natural gas.

Although the IFSA codified Section 3 of Executive Order 12959 (which authorizes the Secretary of the Treasury to take legal action against United States persons based on oil transactions engaged in by their foreign affiliates with Iran), and Section 2(f) of Executive Order 13059 (which includes foreign subsidiaries as entities subject to sanctions for violating U.S. law), concerns remained that existing law required the clarification that sanctions under the ISA should apply to certain foreign subsidiaries of U.S. companies.

To eliminate these concerns, H.R. 957 was amended by an Amendment in the Nature of a Substitute, which was adopted during consideration of the bill by the House Foreign Affairs Committee on February 15, 2007. The amendment provided for imposition of liability on parent companies for violations of sanctions by their foreign subsidiaries.

#### HEARINGS AND BRIEFINGS

In recent years, the Full Committee has held several hearings regarding Iran:

February 26, 2003 (Russia's Policies Toward the Axis of Evil: Money and Geopolitics in Iraq and Iran); June 4, 2003 (U.S. Nonproliferation Policy After Iraq); March 30, 2004 (The Bush Administration and Nonproliferation: A New Strategy Emerges); and February 16, 2005 and March 8, 2006 (both entitled 'United States Policy Toward Iran—Next Steps'). The Full Committee recently held a briefing about Iran—January 11, 2007 (Next Steps in the Iran Crisis), and a hearing—January 31, 2007 (Understanding the Iran Crisis).

#### COMMITTEE CONSIDERATION

On February 15, 2007, the Full Committee marked up the bill, H.R. 957, pursuant to notice, in open session. The Committee agreed to a motion to favorably report the bill, as amended, by a voice vote, a quorum being present.

#### VOTES OF THE COMMITTEE

There were no recorded votes taken during consideration of H.R. 957.

#### COMMITTEE OVERSIGHT FINDINGS

In compliance with clause 3(c)(1) of rule XIII of the Rules of the House of Representatives, the Committee reports that the findings and recommendations of the Committee, based on oversight activities under clause 2(b)(1) of rule X of the Rules of the House of Representatives, are incorporated in the descriptive portions of this report.

#### NEW BUDGET AUTHORITY AND TAX EXPENDITURES

Clause 3(c)(2) of House Rule XIII is inapplicable because this legislation does not provide new budgetary authority or increased tax expenditures.

#### CONGRESSIONAL BUDGET OFFICE COST ESTIMATE

In compliance with clause 3(c)(3) of rule XIII of the Rules of the House of Representatives, the Committee sets forth, with respect to the bill, H.R. 957, the following estimate and comparison prepared by the Director of the Congressional Budget Office under section 402 of the Congressional Budget Act of 1974:

*February 27, 2007*

*H.R. 957—To amend the Iran Sanctions Act of 1996 to expand and clarify the entities against which sanctions may be imposed*

H.R. 957 would amend current law to expand the definition of persons who are subject to sanctions for making investments that increase Iran's ability to develop its petroleum resources. The new definition would add financial institutions, insurers, underwriters, guarantors, and any other business organizations, including any foreign subsidiaries, to the list of entities already barred from investing in Iran. The bill also would add several petroleum by-products to the definition of petroleum resources. Finally, the bill would make parent companies that create entities to invest in Iran subject to the same penalties that would apply if the parent company

had actually engaged in such activity. The provisions of H.R. 957 would codify existing prohibitions on the private sector that are contained in Executive Orders 12957, 12959, and 13059.

CBO estimates that enacting H.R. 957 would have no significant budgetary effect. H.R. 957 contains no intergovernmental mandates as defined in the Unfunded Mandates Reform Act (UMRA) and would not affect the budgets of state, local, or tribal governments. This bill contains no new private-sector mandates as defined in UMRA.

The CBO staff contact for this estimate is Sam Papenfuss. This estimate was approved by Robert A. Sunshine, Assistant Director for Budget Analysis.

*Intergovernmental and Private Sector Impact*

H.R. 957 contains no intergovernmental or private-sector mandates as defined in UMRA and would not affect the budgets of state, local, or tribal governments

PERFORMANCE GOALS AND OBJECTIVES

Pursuant to clause (3)(c) of House rule XIII, upon enactment of this legislation, the Department of State should expand its investigation of violations under the Iran Sanctions Act to include financing of investments in Iran's energy sector.

CONSTITUTIONAL AUTHORITY STATEMENT

Pursuant to clause 3(d) (1) of rule XIII of the Rules of the House of Representatives, the Committee finds the authority for this legislation in article I, section 8 of the Constitution.

NEW ADVISORY COMMITTEES

H.R. 957 does not establish or authorize any new advisory committees.

CONGRESSIONAL ACCOUNTABILITY ACT

H.R. 957 does not apply to the Legislative Branch.

*Earmark Identification*

H.R. 957 does not contain any congressional earmarks, limited tax benefits, or limited tariff benefits as defined in clause 9(d), 9(e), or 9(f) of rule XXI.

SECTION-BY-SECTION ANALYSIS

*Section 1. Expansion and Clarification of Entities Against Which Sanctions May be Imposed Pursuant to the Iran Sanctions Act of 1996.*

Section 1 amends Section 14 of the Iran Sanctions Act of 1996 by adding financial institutions, guarantors, export credit agencies and any other business organizations, including any of their foreign subsidiaries, as subject to sanctions.

*Section 2. Liability of Parent Companies for Violations of Sanctions by Foreign Entities.*

Section 2 requires that a parent company be subject to sanctions for the activities committed by its foreign subsidiary, if those activities, were they committed by the parent company itself, would be in violation of U.S. law.

CHANGES IN EXISTING LAW MADE BY THE BILL, AS REPORTED

In compliance with clause 3(e) of rule XIII of the Rules of the House of Representatives, changes in existing law made by the bill, as reported, are shown as follows (new matter is printed in italics and existing law in which no change is proposed is shown in roman):

**SECTION 14 OF THE IRAN SANCTIONS ACT OF 1996**

**SEC. 14. DEFINITIONS.**

As used in this Act:

(1) \* \* \*

\* \* \* \* \*

(13) PERSON.—The term “person” means—

(A) a natural person;

(B) a corporation, business association, partnership, society, trust, *financial institution, insurer, underwriter, guarantor, any other business organization, including any foreign subsidiaries of the foregoing*, any other nongovernmental entity, organization, or group, and any governmental entity operating as a business enterprise, *such as an export credit agency*; and

\* \* \* \* \*

(14) PETROLEUM RESOURCES.—The term “petroleum resources” includes petroleum, *petroleum by-products, liquified natural gas*, and natural gas resources.

\* \* \* \* \*